

**ANCHUN INTERNATIONAL HOLDINGS LTD.**

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RESPONSE TO SGX QUERIES

The Board of Directors (the "**Board**") Anchun International Holdings Ltd. (the "**Company**") and together with its subsidiary, Hunan Anchun Advanced Technology Co., Ltd. (collectively known as "**Group**") has on 8 March 2021 received the following queries from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in relation to the Group's unaudited consolidated financial results for the second half ending 31 December 2020 and the full year ended 31 December 2020 released on 26 February 2021 and sets out its response as follows:-

Question 1: The Group recorded impairment losses of RMB3.66 million on financial assets for 12 months ended 31 December 2020. Please provide a breakdown and description of these underlying investments.

Response:

The RMB3.66 million pertains to impairment losses arising from trade receivables and not related to any investments in nature. It represents the provision for expected credit loss ("ECL") for outstanding debts for the financial year ended 31 December 2020. The amount is provided based on the ECL model in accordance with the SFRS (I) 9. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Question 2: The Group recorded trade receivables amounting to RMB41.87 million or 78.8% of the Group's revenue of RMB53.15 million for the half year ended 31 December 2020. Please disclose:

- (a) whether these outstanding amounts are owing by related parties, directors, key executives, substantial shareholders or their respective associates, if so, please provide details;
- (b) whether these debtors are still in operation or in financial difficulties; and
- (c) the Board's assessment on the recoverability of the Group's trade and other receivables/trade receivables, and the basis for such an assessment.

Response:

- (a) The Group recorded trade receivables amounting to RMB41.87 million, which represented 45% of the Group's full year revenue (2019: trade receivables amounting to RMB57.41 million, represented 34% of the Group's full year

revenue). These outstanding amounts are not owing by related parties, directors, key executives, substantial shareholders or their respective associates.

- (b) These debtors are still in operation as at financial year ended 31 Dec 2020. To the best of its knowledge, the Group is not aware of any specific debtors that are in financial difficulties. However due to current Covid-19 pandemic, the management and Board anticipated slower trend in repayment of the outstanding debts. While making efforts to manage operations and grow the business under the uncertainties period and project disruptions caused by Covid-19, the Group remains cautiously optimistic on the overall economic environment and the debts collection based on the past experience and clientele background.
- (c) The Board conducts regular assessment on the recoverability of the Group's trade and other receivables with senior management, accounting, sale and business segment personnel. The management team makes regular phone calls and send out collection letters. In addition, the management visits customers' sites regularly to expedite the collection process. Furthermore, Attorney Letters are sent out to debtors and lawsuits are filed when necessary. As the Group's customers are primarily in the People's Republic of China, the slowdown of the China economy has resulted in more payment delays. However, the management conducts monthly cross-functional meetings to monitor outstanding debts closely and assess the needs to make impairment losses on the outstanding debts.

The impairment losses on financial assets are done periodically using the ECL model according to SFRS (I) 9. Due to the current Covid-19 pandemic, management expects slower repayment from debtors and uncertainty in the foreseeable future, these factors are already considered in the ECL model.

Question 3: Please provide the reasons for the significant trade and other payables of RMB28.85 million when the Group recorded a cash and cash equivalent of RMB112.37 million as at 31 December 2020.

Response:

The trade and other payables are interest free in nature. Most of the trade and other payables are within the credit terms and not due for settlement as at year end. Details of trade and other payables of RMB28.85 million are set out in response to Question 4 below.

Question 4: Please disclose a breakdown of trade and other payables/other payables amounting to RMB28.85 million as at 31 December 2020. For other payables, please disclose the identity of the counterparties, the aging and nature of these other payables.

Response:

The breakdown of items of trade and other payables are as follows:

Item by nature	31/12/2020 RMB'000
Trade Payables	12,071
Other Payables	16,779
Total	28,850

The breakdown, aging and nature of items of other payables are as follows:

Item by nature	31/12/2020 RMB'000	<1 year RMB'000	>1 year RMB'000	Comments
Other Payables				
A. Value-added tax payables	8,572	8,572	–	The amount pertains to the Value added tax(VAT) payables. The value added tax is a kind of turnover tax based on the value-added of goods (including taxable services) in the process of circulation. All units and individuals engaged in the sales of goods, provision of processing repairs and replacement services, sell services, intangible assets, immovable property and the importation of goods within the territory of the People's Republic of China are taxpayers of VAT.
B. Housing insurance	1,514	1,514	–	Voluntarily housing insurance for the workers.
C. Other operating tax payables	622	622	–	The other operating tax payable are pertains to the followings:- City maintenance and construction tax; Education supplementary tax; Local education supplementary tax.
D. Sub-total of Others (company or person each with other payables less than RMB600k)	6,071	4,361	1,710	
Total	16,779	15,069	1,710	

Question 5: The Group incurred higher research expenses by 19% in FY2020 mainly attributable to first level shift reactor improvement efforts. Please elaborate on details of the first level shift reactor as well as the type of costs which formed the basis for research expenses.

Response:

Primary isothermal shift reactor is the first CO (carbo monoxide) shift reactor where the carbon monoxide in the process gas mixture is converted into hydrogen. The composition of the inlet gas mixture, pressure and pressure conditions complicate the engineering design and the manufacture of the reactor. Research and development work was conducted to improve process performance and mechanical integrity of the primary CO shift reactor.

The details of research expenses for the primary shift reactor are as follows:

Item by nature	Primary isothermal shift reactor 一级等温变换炉
	RMB'000
Raw materials and Trial production cost of work-in-progress 原材料及半成品试制费	1,484
Research department staff salaries 研究机构人员工资	45
Others 其他	233
Total Research expenses	1,762

By Order of the Board

Zheng, ZhiZhong
Executive Director and Chief Executive Officer
10 March 2021